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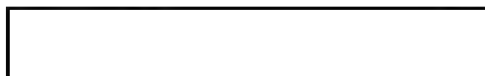


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CAMBODIA: With the rainy season two months along, the Khmer Communists still hold the initiative on almost every military front.

Since late May, the insurgents have shifted their attention from isolated provincial capitals and distant stretches of key highways to the Phnom Penh area. According to the latest estimate by the US defense attache, 57 enemy battalions totaling 17,000 men are now located within a 25-mile radius of the capital. The bulk of these units are concentrated south and southwest of Phnom Penh, but sizable forces are also operating north and northwest of the city. Despite continued heavy air strikes, the insurgents have retained the offensive, gained ground against numerically superior government defenders, and increased the flow of refugees toward Phnom Penh.

Barring major manpower and supply problems or unusually early flooding, the insurgents in the Phnom Penh area can be expected to remain on the attack--at least for the next few weeks. Prospects for any dramatic improvement in the Cambodian Army's performance are bleak. Government strength has been severely taxed by the recent steady fighting, and only intense US air support has limited insurgent gains. Few units remain in the capital's general reserve, and each new threat prompts a complex juggling of units from less active fronts. Corruption, poor tactical planning, and mismanagement of resources at command levels continue to compound lackluster field leadership, and morale--already precarious in a number of outfits--shows signs of falling even further as the bombing deadline approaches. Although the small Cambodian Air Force is becoming more efficient, its ability to offset the impending loss of US air support on 15 August is quite limited. [REDACTED]

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AFGHANISTAN: Former prime minister Daud appears to be in complete control in Kabul but the situation in the rest of the country is still unclear.

Almost nothing is known about the form of the new republic or the composition of the new government. Questioning by the US ambassador revealed that a spokesman for the foreign ministry did not even know what Daud's title is.

There are contradictory reports as to whether several key figures in the previous government have been executed, including Prince Abdul Wali--Daud's cousin--who was generally regarded as the most important man in the country after the King. There is no confirmation of reports that Prime Minister Shafiq has been arrested.

The Afghan foreign ministry has repeated Daud's assurances that foreign policy will continue to be based on the principles of nonalignment. Daud's alleged pro-Soviet tendencies, however, are causing concern in Tehran.

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Daud may well lean more toward the USSR than recent Afghan governments did, but he is likely to retain Afghanistan's traditional policy of playing the great powers against each other. The Soviets have reported the coup factually and without comment. They have also reported Daud's statements regarding Afghanistan's foreign policy of "peace and friendship with all nations."

Islamabad has announced that it wants good relations with Afghanistan to continue, but the Pakistani chargé in Kabul expects relations between the two countries to deteriorate. Daud is a long-time advocate of independence for Pakistan's two frontier provinces. In his initial national broadcast yesterday, Daud said this was Afghanistan's only political dispute with another country.

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LIBYA: President Qadhafi, badly stung by differences with his Egyptian partners over the proposed merger, may be planning a popular "march on Cairo" to demand his own formula for union.

During his recent three-week stay in Egypt, Qadhafi was deeply frustrated by the negative attitude of many Egyptians toward his concept of union and the cultural revolution. Characteristically, he hopes to counter with a dramatic show of popular support for his position. Several thousand Libyans reportedly are to depart for Egypt today in a motorcade scheduled to arrive in Cairo on 23 July--the anniversary of the Egyptian revolution. The demonstrators apparently intend to present President Sadat with a charter charging him to establish a "complete" union based on "popular" and Islamic principles.

Qadhafi presumably hopes that the rally will force Sadat to abandon his gradualist approach to merger. The march, however, is likely to run into difficulties before it ever reaches Cairo. The logistical problems of transporting the demonstrators across Libya will be formidable, and the march could run into trouble when it reaches the Egyptian border.

Should the cavalcade ever reach its destination, it could prove very embarrassing to President Sadat.

Whatever its impact on the Egyptians, the march is certain to contribute to turmoil in Libya. Qadhafi's prolonged absence from Tripoli--he is now in Benghazi--has caused a serious leadership vacuum which none of Qadhafi's colleagues on the Revolutionary Command Council (RCC) has filled. Military

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Qadhafi, however, apparently is not ready to put his own house in order nor is he willing to moderate his position on union, despite considerable pressure from the RCC and President Sadat. His decision to sponsor the march clearly indicates that he is willing to place his prestige and perhaps his leadership behind his demands.

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EAST GERMANY - BERLIN: Pankow apparently has reversed its earlier decision to restrict visits of West Berliners to East Berlin during the World Youth Festival from 28 July to 5 August.

After rejecting a number of applications for visits last week, the East Germans began issuing entry permits again over the weekend. In a discussion with a West Berlin Senat official on 16 July, an East German representative claimed that over 150,000 entry permits have been issued, that all would be honored, and that Pankow considers the matter "closed." The Senat has confirmed that East German processing officials have told West Berliners they may travel.

Pankow's reversal may be due in part to the considerable publicity that West Berlin and West German media gave its earlier decision to restrict access. Pankow reacted quite defensively, and the East German leaders might believe that continuing publicity would reflect badly on them as hosts of the festival. In light of a spate of recent incidents at the Berlin Wall, they may also have feared that an intransigent posture would encourage additional incidents that would be embarrassing during the festival.

It is also possible that the Soviets exerted pressure on Pankow to back down. The Western allies have reminded the Soviet ambassador to East Germany of their concern that existing travel agreements not be violated. The Soviets, who are interested in having a successful festival and generally in avoiding problems with the West, might have suggested to Pankow that it find other means to control Western visitors. [REDACTED]

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ARGENTINA: With preparations under way to install Juan Peron in the presidency, the former dictator's efforts to form a national unity government are meeting opposition from leftist elements of the Radical Party as well as his own. There is also growing concern over whether Peron's health can withstand the pressures of the office.

Provisional President Raul Lastiri is expected soon to set a date for presidential elections-- 26 August has been mentioned most frequently. Efforts are continuing to establish an electoral alliance between the Peronists and the Radical Party by arranging for Radical leader Ricardo Balbin to join the ticket as Peron's vice presidential candidate. It is doubtful that Peron will face any significant opposition, although an attempt might be made to organize a leftist electoral front.

Balbin must still overcome some opposition within the Radical Party to cooperating with Peron, but the potential fruits of such an alliance should overcome the objections of Radical purists. At the same time, the Peron-Balbin alliance could run into opposition from Peronists who fear that Peron, 77 years old with deteriorating health, will not live out a full term.

Leaders of the Peronist left are more concerned that the proposed alliance between Peron and Balbin, which has the blessing of the military, signals a shift to the right. Peronist extremists have not criticized Peron so far, but have accused his closest aides of being agents of imperialism. Some leftist extremists are referring to the removal of Campora as a coup from the right.

To contain this rising opposition, Peron appears to be trying to isolate the extremists while attracting a broad spectrum of political moderates into his government of "national unity." This tactic is likely to include a tough line against extremists and terrorists, combined with moderate economic policies. To maintain the support of the moderate and nationalistic left, Peron will probably emphasize an "anti-imperialist" foreign policy and make a concerted drive for "Third World" leadership.

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FRANCE-EC: Paris is seriously considering the problems of extending European political and defense cooperation.

According to the Quai deputy director for Western European affairs, France has not yet reached a final decision on the form it prefers for the projected "European union." Paris is thinking of a "two-pillar" framework: a "European federation," under the Treaty of Rome, to handle economic subjects covered by that treaty; and a "European confederation" to treat broad political and defense issues. The "pillars" would be linked by various committees and would be capped by a "European union" that could provide the main means of coordination between the "pillars," possibly by "European ministers."

The French official stated that he expected the political directors of the EC foreign ministries might begin discussing defense issues as part of their overall work program. He implicitly acknowledged that this would mark a new departure, because France previously had generally opposed discussion of defense topics in this forum. He said Paris sees no conflict between such discussions and the activities of the Eurogroup nor any reason why defense talks among the EC Nine could not be separated from Eurogroup discussions.

Although President Pompidou has long favored a "two-pillar" approach to European integration, the practical problems of maintaining the distinction are serious. The political dimensions of the economic issues the EC institutions in Brussels deal with will become even more significant as the community moves toward full economic and monetary union. While Paris has gone to great lengths to try to keep the system of political consultations separate from the working of the EC institutions, all of the members now realize that some overlapping is inevitable. A report on the working relationship between the two sets of institutions is set for further consideration by the EC foreign ministers in Copenhagen next week.

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Finally, as the efforts to coordinate the foreign policies of the member states have been extended to more and more topics, the need for a formal organization, which Paris has consistently blocked, has become increasingly evident. Should France now propose to use the EC political consultations as a forum for military cooperation, it will again have to face the need for a secretariat and permanent staff.

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ITALY: The new Rumor government will give top priority to controlling Italy's rapid inflation. Recently announced policies are aimed at curbing price increases by limiting government spending, broadening the government's power to control prices, instituting a rent freeze, and continuing to re-allocate credit into productive investment. The government's program relies heavily on fiscal policy and anticipates that its effectiveness will be enhanced by full implementation of Italy's new tax system in early 1974.

This approach reflects a shift from the expansionary policies favored by Prime Minister Andreotti's government, which pushed economic recovery at the expense of price stability. Recent signs of a pickup in the rate of growth in industrial production and in investment activity will facilitate the shift in policy. Current efforts to control Italy's spiraling prices have been spurred by the continued lack of confidence in the lira and the recent acceleration of the rate of inflation, which is now one of the most rapid among industrialized countries.

Failure of the new measures to curb inflation could endanger the economic upturn. If prices continue to climb at their current annual rate of 11 percent, the labor unions probably will call for inflationary wage increases to supplement recently negotiated wage contracts and might renew strike activity which would disrupt production. Delayed economic recovery would probably postpone Rome's decision eventually to join the joint EC currency float.

PHILIPPINES-MALAYSIA-INDONESIA: Attempts to settle the Philippine-Malaysian dispute over Sabah and foreign support for the Muslim rebellion in the Philippines have advanced little since the June tripartite discussions in Hong Kong. At that time the parties had agreed to try to organize another session by late June, but it has not yet materialized.

President Marcos triggered larger regional involvement in March by telling his ASEAN partners that he was about to publicize Malaysia's alleged role in the flow of assistance from Sabah to Muslim rebels. The generally unsympathetic regional reaction to his charges, however, may have convinced him that there was no advantage to be gained by continuing to press the issue. Moreover, at least some Philippine Government officials believe that Malaysia has subsequently tried to reduce the level of support from Sabah.

The Philippine domestic situation has also changed since April. The Muslim rebellion has quieted down somewhat as the government has backed away from its initial aggressive military approach. President Marcos himself is currently preoccupied with plans for a national referendum on martial law, scheduled for later this month.

Neither Malaysia nor Indonesia is pushing to resume tripartite talks on Sabah, although the three principals continue to discuss the problem informally in other forums. Malaysia is apparently having second thoughts about Marcos' willingness to honor any agreement to relinquish the claim. Although it would be a feather in Jakarta's cap to preside over final resolution of the long-standing Sabah dispute, Indonesia sees no advantage in trying to force the pace of negotiations now that the issue no longer strains ASEAN unity.

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FOR THE RECORD*



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Jordan-Tunisia: Jordan has decided to break diplomatic relations with Tunisia in retaliation for President Bourguiba's proposal that a Palestinian state be carved out of Jordan. Jordan's action followed Bourguiba's confirmation to the Jordanian ambassador that he would not back down on statements made in a press interview on 6 July, in which he characterized Jordan as an artificial state which should be replaced by a Palestinian nation. [REDACTED]

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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